

Sunset Oaks Homeowners Association

Earthquake Insurance Forums

8/12/17, 10-11:30; 8/23/17, 6:30PM-7:30; 8/26/17 10:00-11:30

Guest: Naomi Kleitsch, Farmers Insurance (at the 8/12 Forum)

Naomi described this policy as being quite good. She mentioned that previous earthquake insurance policies only covered the outside structure. Due to a surplus held by insurance companies (which is due to a lack of recent earthquakes causing serious damage), insurance companies are now offering policies that cover far more than just the outside structure. Policies, including the one she was presenting, include interior structure, garage structures, community center, walkways, paved surfaces, fences, gates, underground items such as sewer, gas and/or water lines, light poles and signs. At a high level, for the 45 buildings where there are residents, Coverage A would mean that a 10% deductible would apply for damage done to occupied buildings, and no deductible for the non-occupied buildings (such as the community center) and the other items in the common areas.

NOTE:

During the Aug 12 Forum, the insurance agent mistakenly stated the deductible as 15%. The deductible is 10% or \$25,000, whichever is greater. All deductible discussions in this summary have been corrected to match the policy.

Not included in Coverage A: liability; damage to personal items; reimbursement for loss of use or relocation. She suggested that a homeowner should have their own HO6 policy to cover those items. Also not covered: flood

Cost of policy: approximately \$78,000/year, price subject to change each year. Bill indicated this would break down to \$319/year or \$27/month for each homeowner

One homeowner (a real estate agent) requested information on the 1906 earthquake and the 1989 earthquake, and wanted details on how this area was impacted by those two earthquakes. Naomi didn't have answers to those questions. The homeowner felt that the risks for this area was low. What he saw from the 1989 earthquake was damage resulting from fireplaces not properly bolted, brick buildings such as in Los Gatos, and damage to areas built on landfill on top of marshes. He said that our property is bolted to cement slabs, and was of the opinion that our risk of damage from an earthquake is minimal as a result.

Note:

Sunset Oaks sustained no damage to the buildings, facilities or infrastructure as a result of the 1989 Loma Prieta earthquake.

According to Wikipedia:

During the 1906 earthquake, Sunnyvale was an agricultural community.

Another homeowner questioned the 10% deductible. Is that 10% of the value of the property, \$65M, or 10% of the total damage done to the property? Naomi clarified that it would be calculated by 10% of the total damage done to the property. She also added that the 10% would be applied per building, and that the minimum deductible would be \$25K per building. For example, if 3 buildings were damaged, the minimum deductible would be \$75K. If only 1 building was damaged, the minimum deductible would be \$25K.

A question came up as to how the application process would happen if there was an earthquake and there was damage. The insurance company would create a plot map, value the property, and calculate the percentage damage to the property. For example, if they determined that 10% of the property was damaged, then the damage amount would be \$6.5M.

It was noted that the ballot is structured for a 5-year period. However, if the membership votes yes, it is not obligated to keep the insurance for that long – it can hold a revote during that 5-year period.

A question came up as to aftershocks – are they counted as separate incidents, or as one incident? This would go to how the deductible is calculated. Naomi answered that aftershocks would be considered to be the same occurrence.

There was a brief discussion about personal umbrella insurance. Umbrella insurance covers liability; it is relatively cheap to get, and also covers household, cars, and assets (hence the term umbrella). *Note: The Association recommends each homeowner should consult with their own insurance provider to decide what insurance is appropriate for their particular needs and concerns.*

There was a brief discussion about chimneys, and whether ours were at higher risk of being damaged in an earthquake. The result of the discussion was that chimneys in older homes had a higher risk of being damaged than those on the Sunset Oaks property.

A homeowner asked for information on what damage would occur to the property if an earthquake happened. Naomi said she didn't have that information. The homeowner clarified that he wanted to know how the underwriter calculated what damage would occur to the property in the event of an earthquake, and how they priced the policy as a result of their calculations. Naomi will research that question.

Another homeowner noted that the CEA loss assessment policy was very expensive, but that his HO6 policy loss assessment was very cheap.

A homeowner asked how many homeowners would need to vote in favor of insurance for us to get it. Bill answered that of the quorum who votes, a majority of those has to vote yes. If the minimum quorum of 123 homeowners votes, then 62 of those would have to vote in favor of getting earthquake insurance. If 150 homeowners vote, then 76 of those would have to vote in favor.

Further clarification on the deductible was asked. Two examples were discussed:

Example 1: 5 units in 1 building suffered \$2million in damages: Cost to homeowners with insurance would be $\$200,000/245 \text{ homes} = \816 each. Cost to homeowners without insurance would be $\$2,000,000/245 = \8163

Example 2: 5 units in 2 buildings suffered \$2million in damages. With insurance, cost to homeowners would be $\$200,000/245 = \816 each (this assumes both building incur \$1M in damage each). Cost to homeowners without insurance would be $\$2,000,000/245 = \8163

Other questions from the Aug 12 Homeowners' Forum:

Q: A homeowner asked who was underwriting the policy. Naomi answered that it was Lloyds of London. She shopped it around, and got 5 quotes, and Lloyds was the best offer. A follow up question was asked about who were the other bidders.

A: The other offer for insurance in 2017 was from QBE (\$50M at a premium cost of over \$80K). For the bid received in 2016, 20 carrier were asked to bid, of those that provided quotes, only Lloyds/United Specialty and QBE had offers with premium costs below \$100K.

Additional information: The Lloyds of London policy is being offered has a shared risk between Lloyds of London (83.5%) and United Specialty Insurance Company (16.5%).

Q: How many earthquake policies does Farmer's have in California?

A: Farmer's has few, if any, earthquake insurance policies in California.

Q: If a homeowner is already carrying an earthquake insurance policy for their home, should they keep it if the Association votes to purchase earthquake insurance?

A: The decision for a homeowner to carry personal earthquake insurance is a personal choice that the homeowner should make after discussion with their own insurance agent. It was noted several times that a personal policy may provide some protection coverage against the homeowner's deductible assessment.

Q: What is the liability if earthquake damages one home but a subsequent fire burns the other homes in the building?

A: The damage by the earthquake would be covered by earthquake insurance, the subsequent fire would be covered by the Association's existing fire insurance.

Additional questions from the Aug 23 Homeowners' Forum:

Q: In the event that there is an earthquake, how long would it take to be paid?

A: It depends on the size of the event. Before you get paid, the reconstruction has to start. They generally pay as the contract bills repairs on the buildings. The claims are adjusted by the underwriting facility, so it is not like getting paid from London, if anyone has experienced that. In the Napa event, which was small, some carriers had adjusters at the building before they opened for business, before a claim was filed. In a larger event, it could take some time.

Q: If earthquake insurance is not approved by the homeowners during this ballot, can it be voted on again in the future?

A: Yes, but the Board has not discussed the what criteria would justify a new earthquake ballot after a first ballot fails.

No new questions were asked during the 8/26 Homeowners' Forum

If you believe any question asked during the meeting have been omitted from this summary, please let us know so that it can be added.

Homeowners with additional questions can send them to Bill Tom at treasurer@sunsetoaks.org or they can deliver written questions to Association clubhouse mail slot. Along with your questions, please include your name and a way to contact you. All questions will be added to this summary and distributed to the homeowners.

Below is a link to the U.S. Geological Survey's outlook on an earthquake in the SF Bay Area:

<https://pubs.usgs.gov/fs/2016/3020/fs20163020.pdf>

Thanks to all of the homeowners who participated in the Homeowners' Forums!

All homeowners are encouraged to vote

Return your ballots at your earliest opportunity!